



NEW ISO TRANSMISSION PLANNING PROCESS

Historically, the CAISO transmission planning process consisted of the following steps:

1. The Participating Transmission Owners (PTOs) submitted yearly transmission assessment and expansion plans to the CAISO covering the next five years in detail plus a tenth year. The CAISO reviewed the assessment to ensure it was adequate. The expansion plans were reviewed to determine if the proposed projects: (1) solved an identified problem, (2) were the best alternative from a system point of view, and (3) were the most economical alternative.
2. CAISO Management approved projects that met the CAISO evaluation criteria and had an estimated cost below \$20 million or submitted the project for CAISO Board approval if they had an estimated cost exceeding \$20 million.
3. Additionally, the CAISO combined the individual PTOs plans submitted into one and performed an independent and comprehensive analysis to make sure that "nothing fell through the cracks".
4. Finally, the CAISO conducted studies to determine Reliability Must Run (RMR) Generation requirements.

For the most part, the above process forced the CAISO to be reactionary in part because the CAISO only acted on those projects submitted to the CAISO by the PTOs for approval. Decisions to pay RMR costs or to build facilities to avoid RMR costs had been largely left to the PTOs. Further, transmission expansion projects to mitigate congestion costs within the CAISO control area had frequently been completed after significant congestion costs had already accrued.

The CAISO is proposing a new planning process that allows the CAISO to evolve from a predominantly reactionary role to a proactive planning role. Because the CAISO has confidential economic data that is needed for transmission analysis purposes that the PTOs do not have authorization to use, the CAISO is in a position to use this data to provide a more comprehensive basis for determining the economic impact of congestion and RMR-type costs that the PTOs are expected to incur. This information can further support decisions about new facilities that would provide economic and/or reliability benefits to the ratepayers. As such, the proposed CAISO planning process can be more centralized to facilitate the design of proposed solutions that will maximize benefits for all CAISO market participants. Active participation is needed from the PTOs and market participants to ensure the CAISO has all the relevant information it needs to design these solutions, and PTO and market participants have the information they need to implement their respective plans.

With this background in mind, the CAISO will prepare an annual five-year project-specific plan and a ten-year conceptual plan that will identify projects that CAISO studies indicate enhance grid operations and should be built for economic and/or reliability reasons. The projects will be selected to minimize costs when it can be demonstrated that the project costs are lower than the congestion or RMR-type costs. Once the projects are identified, they will be submitted to the PTOs for evaluation. The transmission plan will account for new load growth, new generation resources, and generating plant retirements. Interim approval for the exploratory activities associated with projects that are still at the conceptual level may be necessary.

It is expected that the initial CAISO five and ten-year plans will be provided for stakeholder review prior to January 2006 and finalized shortly thereafter. New PTO plans based on the CAISO studies should be submitted to the CAISO by July 1, 2006.

The CAISO will develop a process to obtain input to our planning assumptions, particularly the resource portfolio scenarios in the mid to long-term time frame (five to ten years). Some assumptions may be based on contracts, some will be based on best guess, and others may be based on a typical mixture of portfolio. This should be the output of a consultation workshop with the PTOs and market participants that will be sponsored by the CAISO.

The PTOs annual plans will be evaluated to determine if the CAISO projects are part of the PTO's submission. If they are, CAISO management or the CAISO Board of Governors will approve the projects. The PTOs will have an opportunity to assess the CAISO's projects and determine if they have alternative projects that are more effective than those proposed by the CAISO and that those projects provide equal or superior benefits. The CAISO will evaluate those alternative projects.

If any of the projects that the CAISO has determined must be constructed are not part of a PTO plan, the PTO in the area where the project is needed will be asked to build the project on a right of first refusal basis. If the PTO declines to build the project, then the opportunity will be offered to third-party investors. It is understood that a competitive process for awarding projects to third parties will need to be developed with regulatory oversight.

In conclusion, the object of this new process is to proactively eliminate congestion and reliability must run types of generation contracts everywhere that it makes economic sense to do so, resulting in a robust transmission system that will benefit all CAISO ratepayers. Additionally, it will serve as a locational signal to generators for developing resource opportunities in locations that would resolve transmission bottlenecks. In this regard, a locational credit can be designed to encourage siting in the right location for an annual transmission credit based on performance. The credit should not exceed a reasonable portion of the cost of the transmission solution. This, in effect, could re-establish the integrated planning approach under the restructured market in a more meaningful manner as compared to the old model under the vertically integrated structure.